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C O N F I D E N T I A L SECTION 01 OF 02 DJIBOUTI 000065

SIPDIS

STATE FOR AF, AF/E
STATE ALSO FOR AF/EPS COMMERCIAL COORDINATOR ADA ADLER
LONDON/PARIS FOR AFRICA WATCHER

E.O. 12958: DECL: 01/17/2015
TAGS: PREL ECON ETRD PGOV MARR MOPS DJ TC
SUBJECT: TOTAL AND MOBIL TRY TO HOLD LINE ON DORALEH MOVE

REF: A. 04 DJIBOUTI 1034

¶B. 04 DJIBOUTI 899
¶C. 04 DJIBOUTI 856

Classified By: AMBASSADOR MARGUERITA D. RAGSDALE.
REASONS 1.4(B) AND (D).

¶1. (C) Momar Nguer, Total's Director of Refinery and Marketing for East Africa and the Indian Ocean, and boss of Total Djibouti's Chief Executive Francois de Charnace, told Ambassador 1/16 during a de Charnace-hosted dinner, that Total, Mobil and Shell had each received new communication from the government of Djibouti reiterating the companies' obligation to move their oil operations at the current port to the new Doraleh port. However, the deadline for the obligatory move, the letter informed, was now December 2005 vice August 2005. The letter was signed by Djiboutian businessman and Doraleh port investor, Abdurahman Boreh, in Boreh's capacity as "President of the Ports Authority and Free Zones in Djibouti."

¶2. (C) Nguer, on a four-day visit from Total headquarters in Paris, said he would meet the following day with Djibouti's Ministers of Energy, Foreign Affairs, and Finance, as well as with Prime Minister Dileita Mohamed Dileita. Nguer described several concerns of Total regarding the obligatory move: 1) that closure of Total's facilities at the current port would place Total at the mercy of Emirates National Oil Company (ENOC) for storage pricing, perhaps compromising its ability to meet economically existing fuel delivery contracts; 2) that given Djibouti's financial straits, there is no certainty Total could be compensated for the value of its existing infrastructure at the current port, including new fire fighting equipment; and 3) that there may not be a sufficient volume of business to sustain operations of four oil companies, although ENOC says it plans no role in marketing the fuel products it will store. At the same time, he said, Total had obligations it would need to fulfill and would be obliged to lease at Doraleh.

¶3. (C) The Director of Mobil Oil Djibouti, Alain Adam, back January 16 from a month's holiday in France, provided Ambassador January 17 with a copy of the Boreh letter about which Nguer had spoken. The letter stated clearly that no oil/fuel-related activities would be permitted from the existing port after 31 December 2005. Adam said there is no way Djibouti can compensate Mobil for the value of its infrastructure, which he estimated at USD 25 million and he does not expect Exxon/Mobil would accept a USD 25 million write-off. Yet, he said, Mobil will repeat will be obliged to lease tanks at Doraleh because it has existing contractual obligations it must honor. These include a contract with French Forces of Djibouti to provide 30 per cent of the Forces' fuel needs. (Total is contracted to provide the remaining 70 per cent). Moreover, Adam said he believes Mobil will want to participate in a solicitation from DESC to provide certain fuel products to Camp Lemonier over a three-year period. The products and quantities are 1.3 million U.S. gallons of Jet A-1, 16,000 U.S. gallons of premium unleaded mogas, and 1.7 million U.S. gallons of #2 diesel. Deadline for bids is January 24. Adam will be in contact with Mobil Fairfax regarding the solicitation. (Comment: The solicitation tracks with Ambassador's understanding from Camp Lemonier that the Camp's fuel requirements would be let under a formal bid process. We would urge Mobil to compete, if this will help maintain its presence. End comment)

¶4. (U) Meanwhile, construction of Doraleh port proceeds at a steady pace. During a visit to the site January 13, Ambassador, Pol/Econ, and Econ Assistant were told that the U.S. Navy may increase its tank use at Doraleh from four to eight. (Note: Four are currently contracted to the U.S. Navy under a DESC arrangement. End note) Doraleh site manager K.K. Menon stated that completion is expected at the beginning of August. Key remaining projects include laying of pipes that will carry the fuel, surfacing of the port area, and completion of the jetty and two tanker berths. Two primary roads leading from the port to the city of Djibouti

and to the main road to Ethiopia, as well as 150 houses for displaced families, are under construction at the expense of port investors.

¶5. (C) Comment: The primary concern of both Mobil and Total in Djibouti is the value of their existing investment and whether and how adequate reimbursement can be obtained should they be obliged to relocate. Mobil's Adam plans to bring his chief executive out to Djibouti for discussion of this issue at an early date. Neither company has indicated a willingness to accept a major write-off, for bottom line reasons. Both suspect that the Government of Djibouti will attempt, in the last analysis, to assess the oil operators -- including U.K.'s Shell -- a penalty for environmental damage that would equal the value of their current investment. If this happens, a vigorous legal challenge from these companies is likely. End comment.

RAGSDALE